

Financial Policies

Legal Deadlines

The City of Mesa is bound by the requirements of state law, the City Charter and generally accepted accounting principles for the financial policies in place today. Limits on the amount of appropriations, limit upon actual expenditures, issuance of the amount of debt, budget calendar dates and public notices are various requirements that must be adhered to in the budget process.

Arizona state law requires the City Council to adopt a balanced budget annually. The City of Mesa does not levy a property tax and therefore is not subject to the requirements for limiting primary or secondary property tax levies.

The City Charter and state statutes establish legal deadlines for adopting the City operating budget and the CIP.

Action Required	City Charter Deadlines	Arizona State Statute Deadlines	FY 2003/04 Dates
City Manager submits Preliminary Five Year CIP Program	By March 1 submit a Five Year capital program	None	March 1, 2003
City Manager submits Preliminary budget to City Council	None	None	May 5, 2003
Publish summary of 5-Year Capital Program and notice of public hearing which must precede final adoption.	One publication at least two weeks prior to public hearing.		June 14, 2003
Publish summary of tentatively adopted budget and notice of public hearing which must precede final adoption.		Once a week for two consecutive weeks following tentative adoption.	June 21, 2003 June 28, 2003

The City Council adopts a three page legal budget that identifies appropriation by program, revenues by major revenue category and ending fund balances. The current budget information is included, along with the forecasted ending results for the current budget and the following year's adopted budget. Also included is the proposed budget for FY 2004/05.

The City of Mesa has several different funds within its governmental structure. These funds are used to record allowable expenditures against the appropriate revenue sources. This allows elected officials to evaluate tax rates, user fees or bond indebtedness amounts to ensure they are fair and equitable to citizens and visitors.

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Description of Funds and Fund Types

The financial transactions of the City are recorded in individual funds. A fund is a grouping of related accounts used to maintain control over resources that have been designated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, as well as for managerial control to demonstrate fiduciary responsibility over the assets of the City. Types of funds used by the City include governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

The General Fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government that are not accounted for in other funds. In Mesa, these services include general government, public safety services, cultural and recreational services, community environment services and any other activity for which a special fund has not been created.

The Quality of Life Half-Cent Sales Tax Fund is a voter-approved revenue dedicated to the following programs: Law Enforcement, Fire, Parks and Recreation, Library, Aquatics, Arts and Cultural and Transportation.

Special Revenue Funds are used to account for specific revenues that are restricted to expenditures for particular purposes. The City's Special Revenue Funds include the following:

- Local Transportation Assistance Fund (LTAF) accounts for expenditures on local transportation operations and capital outlay, as mandated by the Arizona State Legislature. The principal financing source is state-shared lottery revenue.
- Mesa Housing Services Fund accounts for expenditures of the City's housing assistance programs, which consist of housing owned and operated by the City and rent subsidy payments to private sector owners of dwelling units. Financing for this fund is derived from tenants and the United States Department of Housing and Urban Development.
- Cemetery Reserve Fund is designed to provide an accumulation of monies from which the interest earnings will provide perpetual care of the City cemetery. These funds are provided through cemetery sales and transfers from the General Fund.

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- Impact Fees Fund is designed to provide a balance of monies to ensure that new development bears a proportionate share of the cost of improvements to the City's parks; cultural facilities; law enforcement and fire facilities and equipment; and libraries. These funds are provided through the collection of development impact fees.
- Public Art Fund is designed to provide a balance of monies from which public art projects throughout the City may be developed. Funds are provided through allocations from the General Fund.
- Highway User Revenue Fund accounts for capital projects and maintenance of the City's streets and highways, as mandated by the Arizona Revised Statutes. Financing for this fund is provided by the state shared fuel taxes.

Proprietary Funds

Enterprise Fund is used to account for operations: a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Enterprise Fund is utilized to account for city owned Electric, Gas, Water, Wastewater and Solid Waste Systems, as well as city owned airport, golf courses and Centennial (Convention) Center. The Utility Fund and the Utility Development Fund (which are impact fees for Water, Wastewater and Solid Waste) complete the make up of the City's Enterprise Fund.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost reimbursement basis.

These services include fleet support, materials and supply, printing and graphics, and self-insurance for property and public liability, worker's compensation and employee benefit programs.

Fiduciary Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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Fund Balance Ratio

The City has had a goal of maintaining a beginning fund balance that is equal to or greater than 10% of the City's operating budget in the same year, excluding the Quality of Life (QOL) Half-Cent sales tax. The ratio history and forecast of beginning fund balance to operating budget less QOL is as follows:

<u>Fiscal Year</u>	<u>Operating Budget Less QOL</u>	<u>Beginning Fund Balance</u>	<u>Ratio</u>
2001/02	\$477,593,974	\$47,958,831	10.0%
2002/03	\$487,157,000	\$45,446,616	9.3%
2003/04	\$536,091,148	\$34,821,616	6.5%
2004/05	\$533,725,775	\$35,863,541	6.7%
2005/06	TBD	\$40,493,000	N/A

Due to the significant downturn in the economy over the past two years, all City departments submitted budget expenditure reductions to their programs, in order to balance with decreased revenues while still providing acceptable levels of services for the City of Mesa. City departments exhibited considerable innovation in developing enhanced methodologies and practices in order to serve the needs of Mesa residents. For FY 2003/04 and 2004/05, the ratio of beginning fund balance as compared to the City's operating budget less QOL has leveled off to an amount less than the desired 10%. If not for an aggressive program of expenditure abatement, this ratio would have dipped lower. The estimated beginning fund balance for FY 2005/06 is forecast at \$40,493,000. This reflects a continuous effort by the City Council and administration to return the beginning fund balance to a 10% level over a period of time.

Investment Policy

The City of Mesa's investment policy is designed to comply with the City Charter, which permits investments in any security authorized by the laws of the State of Arizona. The City's primary investment objective is safety of principal. It is the government's fiduciary responsibility to keep its money intact and maintain sufficient liquidity to pay its ongoing expenses. Investment strategies attempt to coordinate lengths of time that funds are invested with ongoing needs for cash to pay the City's bills. The City of Mesa's investment strategy is to earn the highest yields possible consistent with protecting the safety of principal and meeting the City's liquidity requirements. The City's investment portfolio totaled \$271.7 million as of June 30, 2003.

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Debt Program

The City of Mesa has developed a well-managed long-term debt program. Arizona cities can issue general obligation bonds for purposes of water, wastewater, lighting, open space, and parks and recreation projects up to 20% of the secondary assessed valuation. General obligation bonds can be issued for all purposes other than those previously listed not to exceed 6% of the secondary assessed valuation. As of June 30, 2003, the City of Mesa's constitutional debt limitation for 6% bonds is \$136,334,693, of which \$107,575,000 is currently outstanding. The constitutional limit of the City's 20% bonds is \$454,448,977, of which \$119,370,000 is currently outstanding.

As of July 1, 2003 the City's total outstanding debt is \$777,308,485. This amount includes general obligation bonds, utility system revenue bonds, street and highway user revenue bonds, City of Mesa Municipal Development Corporation debt and capital leases. Based on an estimated population of 439,434¹, the City's total debt per resident as of July 1, 2003 is \$1,769.

For the FY 2003/04 budget year, the budgeted debt service and lease payments total \$68,875,648, representing 11.1% of the City's operating budget. For FY 2004/05, lease payments total \$59,992,753, which is 10% of the City's operating budget.

The following schedules detail the City's outstanding debt, debt margin available and debt per resident:

¹Population data from the Official Statement dated February 27, 2003, City of Mesa, Arizona, \$22,565,000, General Obligation Bonds, Series 2003.

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Debt Outstanding

As of July 1, 2003 Description	Issue Series	Original Amount	Maturity Date	Balance Outstanding
General Obligation Bonds				
Various Purpose	1995	\$ 20,060,000	7-1-01/07	\$ 1,560,000
Various Purpose	1997	\$ 24,000,000	7-1-09/11	\$ 6,650,000
Various Purpose	1998	\$ 30,000,000	7-1-09/18	\$ 30,000,000
Refunding	1998	\$ 18,100,000	7-1-99/08	\$ 17,500,000
Various Purpose	1999	\$ 38,500,000	7-1-09/18	\$ 16,500,000
Various Purpose	2000	\$ 36,500,000	7-1-09/19	\$ 23,750,000
Various Purpose	2002	\$ 26,575,000	7-1-09/20	\$ 18,075,000
Refunding	2002	\$ 24,840,000	7-1-04/15	\$ 24,840,000
Refunding	2002A	\$ 40,105,000	7-1-10/16	\$ 40,105,000
Various Purpose	2003	\$ 22,565,000	7-1-10/22	\$ 22,565,000
		<u>\$ 281,245,000</u>		<u>\$ 201,545,000</u>
Utility System Revenue Bonds				
Junior Lien Bonds	2003	\$ 14,730,000	7-1-03/05	\$ 14,730,000
Refunding	1995	\$ 26,400,000	7-1-02/04	\$ 13,700,000
Utility Improvements	1995	\$ 40,000,000	7-1-11/15	\$ 7,000,000
Utility Improvements	1997	\$ 94,730,000	7-1-12/17	\$ 11,000,000
Refunding	1998	\$ 32,500,000	7-1-00/13	\$ 27,480,000
Utility Improvements	1998	\$ 34,600,000	7-1-09/18	\$ 21,665,000
Utility Improvements	2000	\$ 69,200,000	7-1-09/19	\$ 30,200,000
Utility Improvements	2002	\$ 57,950,000	7-1-09/21	\$ 57,950,000
Refunding	2002	\$ 129,000,000	7-1-04/17	\$ 129,000,000
Refunding	2002A	\$ 48,850,000	7-1-08/17	\$ 48,850,000
Utility Improvements	2003	\$ 50,470,000	7-1-10/22	\$ 50,470,000
		<u>\$ 598,430,000</u>		<u>\$ 412,045,000</u>
Street and Highway User Revenue Bonds				
Street Improvements	1997	\$ 19,000,000	7-1-09/17	\$ 9,000,000
Street Improvements	1999	\$ 7,900,000	7-1-09/17	\$ 2,600,000
Street Improvements	2000	\$ 20,000,000	7-1-10/19	\$ 8,000,000
Street Improvements	2002	\$ 25,800,000	7-1-10/20	\$ 22,800,000
Refunding	2002	\$ 31,985,000	7-1-04/17	\$ 31,985,000
Street Improvements	2003	\$ 26,805,000	7-1-10/22	\$ 26,805,000
		<u>\$ 131,490,000</u>		<u>\$ 101,190,000</u>
Municipal Development Corporation Bonds				
Municipal Facilities			7-1-04/04	\$ 1,000,000
Pinal Land Acquisition			1-1-04/08	\$ 19,800,000
Special Tax Updates Bonds			7-1-08/17	\$ 9,970,000
				<u>\$ 30,770,000</u>
Capital Leases				
Infrastructure, Land, Other Improvements				<u>\$ 31,758,485</u>
Total Debt Outstanding				<u>\$ 777,308,485</u>
Total Debt per Resident (population estimate of 439,434 as of 02/27/03)				<u>\$ 1,769</u>

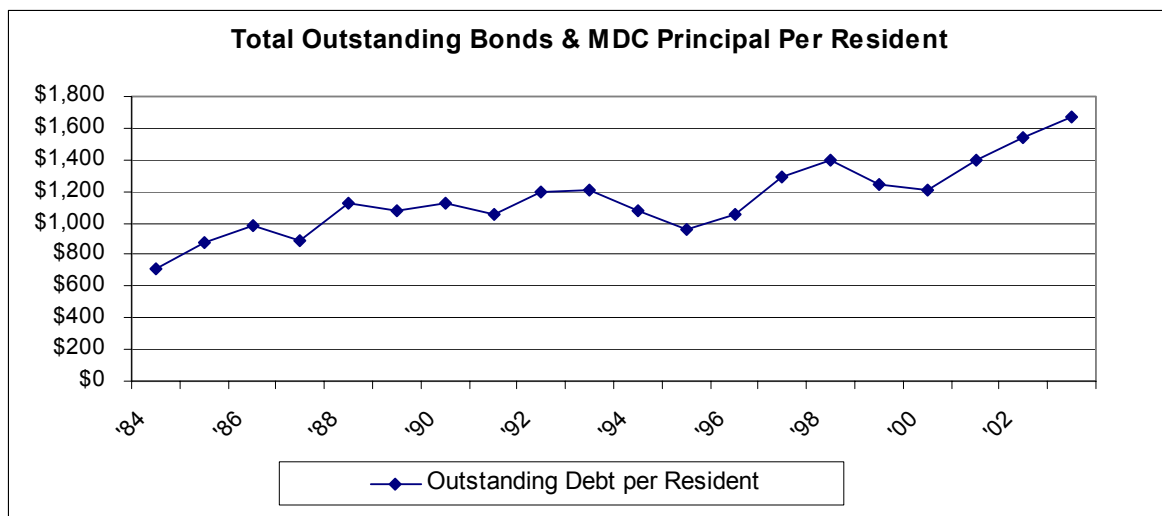
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Debt Margin Available

	General Municipal Purpose Bonds	Water, Light, Sewer, Open Space & Park Bonds
Bonds	6%	20%
Legal Debt Limitation *	\$ 136,334,693	\$ 454,448,977
Less Bonds Outstanding	\$ 107,575,000	\$ 119,370,000
Debt Margin Available	\$ 28,759,693	\$ 335,078,977

* Note: Based upon the Secondary Assessed valuation of \$ 2,272,244,883 as of June 30, 2003.

Debt Per Resident



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Bond Authorization

Presently the City has \$144,363,000 in bond authorization from the voters. The following bond authorization summary outlines the City's prior available bond authorizations, the bond sale amounts and the amounts remaining after issuance of the bonds:

Bond Authorization Summary

Purpose	Statutory Bond Type	Prior Available Authorization	FY 2002/03 Sale	Remaining Authorization
Fire Prevention	6%	\$ 13,169,000	\$ 9,460,000	\$ 3,709,000
Parks & Recreation	20%	\$ 7,635,000		\$ 7,635,000
Public Safety	6%	\$ 16,655,000	\$ 8,410,000	\$ 8,245,000
Library Facilities	6%	\$ 9,404,000	\$ 1,460,000	\$ 7,944,000
Storm Sewer	20%	\$ 25,188,000	\$ 3,235,000	\$ 21,953,000
Gas	6%	\$ 5,700,000	\$ 5,005,000	\$ 695,000
Water	20%	\$ 78,882,000	\$ 24,995,000	\$ 53,887,000
Wastewater	20%	\$ 29,890,000	\$ 19,440,000	\$ 10,450,000
Solid Waste	20%	\$ 9,315,000	\$ 1,030,000	\$ 8,285,000
Streets/Highways	HURF	\$ 48,365,000	\$ 26,805,000	\$ 21,560,000
		\$ 244,203,000	\$ 99,840,000	\$ 144,363,000

Proceeds received from the sale of these bonds will be used to pay for the design, construction, acquisition and land purchase components of certain capital projects which the City will continue to undertake, or will begin, during FY 2002/03. The bonds represent portions of bond authorization approved by the City electorate at special bond elections held in the years 1987, 1994, 1996 and 2000. The bond issues fall within the City's revenue bond coverage requirements and other parity bond tests.

Revenue Bond Coverage

The utility system coverage test for Electric, Gas, Water, Wastewater and Solid Waste is a comparison of net revenues to debt service expenses. This is the number of times that net revenues exceed the cost of principal and interest payments. The City revenue bond indenture ordinances require that the net revenues equal 120 percent of the principal and interest requirement in each fiscal year. Historically, the coverage has been as follows:

Fiscal Year	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02
Percent	337	409	399	399	386	767	686	729	678	524

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Net Share of Total City Revenue

	Actual FY 2002/03		Budgeted FY 2003/04		Budgeted FY 2004/05	
Sales And Use Tax	\$ 98,628,000	27.4%	\$ 98,628,000	24.9%	\$ 102,790,000	24.8%
Other Taxes	\$ 1,235,000	0.3%	\$ 1,264,000	0.3%	\$ 1,324,000	0.3%
Licenses and Permits	\$ 15,573,000	4.3%	\$ 17,813,000	4.5%	\$ 19,228,000	4.6%
Intergovernmental Revenues:						
Fed., St. & Co. Grants & IGA's	\$ 28,851,000	8.0%	\$ 40,812,000	10.3%	\$ 31,841,000	7.7%
State Shared Revenues	\$ 121,164,000	33.6%	\$ 117,567,000	29.6%	\$ 119,444,000	28.8%
Charges For Services	\$ 9,450,000	2.6%	\$ 10,249,000	2.6%	\$ 10,406,000	2.5%
Fines & Forfeits	\$ 7,717,194	2.1%	\$ 8,797,000	2.2%	\$ 9,102,000	2.2%
Miscellaneous Revenues	\$ 6,153,000	1.7%	\$ 8,772,000	2.2%	\$ 5,069,000	1.2%
Other Receipts	\$ 1,813,000	0.5%	\$ 1,556,000	0.4%	\$ 567,000	0.1%
Utility Net Income	\$ 62,442,554	17.3%	\$ 77,111,000	19.4%	\$ 101,700,000	24.5%
Non-Utility Enterprises	\$ 7,207,000	2.0%	\$ 14,115,000	3.6%	\$ 12,947,000	3.1%
Total Revenues, Net of Bad Debt	\$ 360,233,748	100.0%	\$ 396,684,000	100.0%	\$ 414,418,000	100.0%

The preceding table summarizes the total net revenues available for general governmental activities. The listed sources are presented net of bad debt, except for utility net income. To exhibit the amount of resources available for general uses, the revenues of the Electric, Natural Gas, Water, Wastewater and Solid Waste Utilities are presented net of related operational, capital, debt service and bad debt expenses.

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Long Range Financial Plan

The Mayor and City Council directed staff to develop a seven-year forecast that identifies the following:

- Cost to maintain the current level of service.
- Cost of providing expanded/new levels of service based upon changes in the community.
- Debt service costs for existing and new bond sales during the forecast period.
- Constructed and purchased capital needs including the operating and maintenance costs associated with the capital projects.

The assumptions in the forecast include the following:

- Expenditure growth will be equal to the Consumer Price Index (CPI) forecasted for each year of the forecast.
- Revenue growth in consumer-based fees was adjusted via regression formulas.
- Utility rate changes were based upon a factor of CPI plus population growth.

This forecast will allow the Mayor and City Council to establish short and long-range fiscal policies. These policies will include fund balance goals, contingency reserve requirements, revenue strategies, program expansion and the timing of bond projects.

The forecast system will be presented to the Mayor and City Council in September 2003.